DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

I. D. #5434

ENERGY DIVISION **RESOLUTION E-3974**

APRIL 13, 2006

R E S O L U T I O N

Resolution E-3974. San Joaquin Local Agency Formation Commission request for a California Public Utility Commission opinion on the effect of South San Joaquin Irrigation District's proposal to provide retail electrical service within Pacific Gas and Electric's service territory.

By letter dated January 11, 2006, and received by the Energy Division on January 18, 2006.

SUMMARY

The proposal by the South San Joaquin Irrigation District (SSJID) to provide retail electrical service to approximately 40,000 existing Pacific Gas and Electric Company (PG&E) customers will likely raise rates for PG&E's remaining customers; the magnitude of the estimated increase, however, is small relative to PG&E's current system average rates, and thus does not substantially impair PG&E's ability to provide adequate service at reasonable rates within the remainder of its service territory.

- Some customers in SSJID's proposed service area may be exempt from payment of certain transition costs and other non-bypassable charges (NBCs) which would require remaining PG&E customers to cover these costs.
- There is a possibility that SSJID's severance proposal may idle some existing PG&E distribution and transmission (T&D) facilities requiring PG&E customers to cover the costs. PG&E did not quantify the impact, however, because it claims such an estimate depends on SSJID's precise plans which are unknown at this time.
- PG&E's remaining ratepayers would be affected by lost T&D revenue that PG&E would have collected from customers in the proposed SSJID service area. PG&E would avoid some T&D costs should the SSJID's proposal

move forward, however, the lost revenue is expected to exceed the avoided costs, so that the contribution to margin would decrease.

- Although the amount of load departure resulting from SSJID's proposal may be within the range of forecasting uncertainty, it does not negate the cost impact analysis.
- To the extent there are quantifiable avoided costs, PG&E's model credits them as a benefit to PG&E's remaining ratepayers; SSJID's claims of additional net benefits to PG&E's remaining ratepayers lack supporting quantitative analysis.
- The estimated total overall rate impact of SSJID's proposed service on PG&E's remaining ratepayers is $0.00035 per kilowatt-hour (kWh), which is approximately ¼ of a percent of PG&E's current system average rate.

Consideration of energy policy issues related to the formation or expansion of public power within a public utilities' service territory should be added to the scope of the CPUC's review under Government Code § 56131, and a general policy statement should be formulated.

- The CPUC is seeking legislative changes to expand the scope of its review to require the consideration of the cumulative impacts of additional proposals, including the effect multiple proposals may have on the efficiency of the utilities' programs to implement state energy policy goals and priorities.
- The initiation of a generic CPUC proceeding to consider and adopt a general policy statement is pending.

BACKGROUND

SSJID proposes to expand the scope of the services it offers to provide retail electrical service to approximately 40,000 existing PG&E customers.

SSJID currently provides irrigation water service and wholesale domestic water service to customers within southern San Joaquin County, and also provides wholesale electric generation and electricity marketing services through its ownership interest in three hydroelectric generating facilities. SSJID proposes to acquire existing electric distribution facilities owned and operated by PG&E, and construct certain new facilities to physically and operationally separate facilities, in order to begin providing retail electric service to approximately 40,000 customers. Because SSJID does not currently provide retail electric service, SSJID is seeking approval from the San Joaquin Local Agency Formation Commission (LAFCo).

The CPUC is responsible for investigating SSJID's proposal and issuing an advisory report to the LAFCo on whether it will have a substantial impact upon PG&E's remaining customers.

Government Code § 56131 requires the CPUC to investigate irrigation district proposals and report its opinion to the LAFCo within 90 days whether the proposed service within the proposal territory will substantially impair the ability of the public utility to provide adequate service at reasonable rates within the remainder of its service area. On January 18, 2006, the Energy Division received a letter, dated January 11, 2006, from the San Joaquin LAFCo requesting the opinion of the CPUC regarding SSJID's proposal.

The CPUC relies on certain criteria to evaluate and make its determination concerning substantial impairment to PG&E's remaining ratepayers.

Resolution E-3952 addressed an annexation proposal by the Sacramento Municipal Utility District (SMUD) as requested by the Sacramento LAFCO. In that resolution, the CPUC determined that the following criteria were reasonable for evaluating a district's service proposal:

a) whether the customers of the proposed district will be able to bypass payment of transition costs, which would require the remaining PG&E customers to cover these costs,

b) whether any aspect of the district's proposal will potentially idle PG&E facilities requiring remaining PG&E customers to cover the costs of these idled facilities,

c) whether there are any other quantifiable costs and/or offsetting benefits that would affect remaining PG&E customers, and

d) whether the resulting cost impact, if any, would have a significant rate impact on remaining PG&E customers.

SSJID addressed the CPUC criteria in its proposal and determined that its acquisition of PG&E's distribution facilities and its provision of electric service will not adversely impact, and will likely benefit, PG&E's remaining electric customers.

SSJID states that 1) its newly acquired customers will not be able to bypass payment of transition costs or other NBCs, 2) it will not install distribution infrastructure that would result in idling PG&E's distribution facilities, and 3) the provision of retail electric service by SSJID will not have a significant rate impact on PG&E's remaining customers.

Furthermore, SSJID believes that it is likely that the change in service providers from PG&E to SSJID will reduce upward pressure on PG&E's retail rates going forward, providing net benefits to PG&E's remaining ratepayers. SSJID states that there are several reasons for this, including: (i) the transfer of load to SSJID will reduce PG&E's need to procure new resources to serve load in the near and long term; (ii) the load to be transferred to SSJID is "summer peaking" relative to PG&E's system average; thus, PG&E's additional future generation capacity needs in the summer will be reduced; (iii) the transfer of Central Valley load is growing at above-average rates but PG&E charges customers on a system average basis that does not take into account differentials in load growth across PG&E's system; (iv) the transfer of load to SSJID removes load that is currently paying less than full cost of service standards as measured by PG&E, thus reducing the cross-subsidy paid by other PG&E customers within SSJID's service territory; and (v) the transfer of load to SSJID reduces the need for PG&E investment in additional transmission capacity to ensure reliable delivery of power during the peak load (summer) season.

To perform its review, Energy Division asked for and received additional information from PG&E concerning SSJID's proposal to provide retail electrical service.

On January 19, 2006, the Energy Division requested that PG&E 1) address the criteria considered in Resolution E-3952, 2) respond to each SSJID assessment of costs and benefits to PG&E's remaining ratepayers, 3) provide quantitative impact estimates for each response with explanations of the calculations of such estimates, and 4) provide supporting workpapers with its estimate of the rate impacts. PG&E responded to this inquiry on January 31, 2006.

NOTICE

The San Joaquin LAFCo's letter was noticed in the Daily Calendar.

San Joaquin LAFCo's letter, dated January 11, 2006, was received by the Energy Division on January 18, 2006 and noticed by publication in the Commission's Daily Calendar on January 23, 2006.

PROTESTS

PG&E urges the CPUC to issue a determination that SSJID's proposal will substantially impair PG&E's ability to provide adequate service at reasonable rates within the remainder of its service territory.

In its January 31, 2006 response to the Energy Division's request for information, PG&E asserts SSJID's proposal would 1) harm PG&E's remaining ratepayers by a 20-year Net Present Value (NPV) amount of $232.1 million, increasing their rates by an estimated $0.0004 per kWh, 2) result in the construction of additional facilities not otherwise needed, and 3) continue to remove customers from the CPUC's jurisdiction- continuing a trend that it believes promises to progressively hamper the ability of the state to achieve its energy policy objectives.

SSJID responds that PG&E's analysis is flawed and that SSJID's project will have no significant adverse effect on PG&E's remaining ratepayers.

SSJID submitted late-filed comments regarding PG&E's response on February 15, 2006[1]. SSJID claims PG&E's response is incomplete, inconsistent, inaccurate and extremely misleading. As a result of errors and omissions, SSJID asserts PG&E's analysis significantly overstates the revenue it will lose, significantly understates the costs that it will avoid and benefits to remaining customers, and misconstrues the public policy implications of SSJID's plan.

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[1] Comments were due by February 6, 2006. Although submitted late, SSJID's comments were succinct and thus were able to be considered and incorporated into the draft Resolution.

DISCUSSION

Previous criteria are used to evaluate the effects of SSJID's proposal on PG&E's ability to provide adequate service at reasonable rates within the remainder of its service territory.

Our evaluation of SSJID's proposal to provide retail electric service relies on the criteria deemed reasonable in Resolution E-3952. Specifically, we consider a) whether SSJID's customers will be able to bypass payment of transition costs, which would require the remaining PG&E customers to cover these costs, b) whether any aspect SSJID's proposal will potentially idle PG&E facilities requiring remaining PG&E customers to cover the costs of these idled facilities, c) whether there are any other quantifiable costs and/or offsetting benefits that would affect remaining PG&E customers, and d)whether the resulting cost impact, if any, would have a significant rate impact on remaining PG&E customers.

Some customers in SSJID's proposed service area may be exempt from payment of transition costs and other NBCs which would require remaining PG&E customers to cover these costs.

All bundled service PG&E customers, non-exempt direct access customers, and non-exempt departing load customers located in SSJID's proposed service area currently pay a variety of transition costs and other NBCs. The competition transition charge (CTC), public purpose program (PPP) charge, nuclear decommissioning charge (NDC), and fixed transition amount/transition trust amount (FTA/TTA) charge were implemented to recover costs arising from electric industry restructuring. The Department of Water Resources bond charge (DWRBC) and the Department of Water Resources power charge (DWRPC) are for recovery of costs associated with power procurement during and after the energy crisis. PG&E's bankruptcy-related costs are captured in the energy cost recovery amount (ECRA) charge.

The applicability of these charges to Municipal Departing Load (MDL) (e.g PG&E retail electric customers who depart to be served by SSJID) is governed by legislation and CPUC decisions[2]. The net result with respect to SSJID's proposal is that all MDL customers served by SSJID would continue to be responsible for the CTC, NDC, FTA/TTA charge, and DWRBC but would be exempt from the PPP charge; some MDL customers would be exempt from the DWRPC and the ECRA charge.

PG&E and SSJID agree that some load to be served by SSJID may be exempt from certain charges but they disagree as to whether PG&E's remaining customers would have to cover any costs associated with the exemptions. SSJID states that there would be no cost shifting to PG&E's remaining customers because legislative and administrative exemptions were granted on the basis that certain loads did not contribute to the costs for which the charges were established. PG&E states that since customers who depart for SSJID service would have paid all of these charges in their entirety had they continued PG&E service, there is a loss of revenue associated with exemptions that adversely affects PG&E's remaining customers. PG&E estimates a $34.8 million NPV adverse impact would result from these lost revenues.

In Resolution E-3952 regarding our evaluation of SMUD's annexation proposal, we concluded that PG&E's remaining ratepayers must cover the costs resulting from transition costs payment exemptions[3]. We understand SSJID's position that some CRS exemptions were justified in recognition of the fact that PG&E did not incur costs associated with certain departing loads, however, we reached the above conclusion on the basis that the overall cost obligation is a fixed amount and that any portion of this amount not paid as a result of an exemption creates a

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[2] See Assembly Bill 1890 and CPUC Decision (D.) 97-08-056, D.03-07-028, D.04-11-014, D.04-12-059, D.05-07-038, and D.05-08-035.

[3] We specified that transition costs included the following components of the Cost Responsibility Surcharge (CRS): the DWRBC, the DWRPC, the ongoing CTC, and the ECRA charge. Although we excluded the FTA/TTA charge, NDC, and the PPP charge from our transition costs exemption analysis, we did consider the cost impacts of exemptions from these other NBCs in our discussion section regarding other costs/lost revenues.

revenue shortfall that must be paid by the remaining customers. Although this revenue shortfall represents a cost impact, it does not constitute cost-shifting as prohibited by Public Utilities (PU) Code § 366.2(d).

In addition to the CRS exemption issue, SSJID asserts that PG&E's lost NBC revenues estimate is overstated because it ignores the expiration date of certain NBCs and fails to properly account for PPP revenues. Following a review of PG&E's workpapers supporting its calculations, we conclude that, with the exception of PPP costs, PG&E's lost NBC revenues estimate does account for the expiration date of the relevant NBC components. PG&E specifically calculates total rate percentages by customer class for MDL for the period 2007 through 2012, and calculates different ones for after 2012, to account for the fact that the ECRA charge and the DWRPC components will expire in 2012. Although PG&E stated that the PPP charge is also expected to expire in 2012, lost revenues associated with PPP charge exemptions are included throughout its 20-year forecasting period.

PU Code § 381 effective September 24, 1996, required public utilities to establish the PPP charge (formerly called the Public Goods Charge) to fund in part energy efficiency programs, renewable resource energy technology programs, and public interest research and development through the end of 2001. Funding for these programs through the PPP charge was extended through January 1, 2012 by PU Code § 399.8, effective January 1, 2002. Due to the importance of public purpose programs, it is reasonable to assume that the PPP charge will likely be extended again. Thus, it is conservative and appropriate for PG&E to include lost revenues from PPP charge exemptions in its total NBC lost revenue estimate.

SSJID claims that it is inappropriate to include lost PPP revenues in its cost impact analysis because PPP costs are not fixed but rather should be managed to adapt to PG&E's slightly smaller customer base to ensure that PG&E's PPP expenditures benefit PG&E's remaining customers only. SSJID notes that it has included PPP costs in its own retail electric service pro forma and will implement its own PPPs for the benefit of the electric customers it will serve. PG&E may be able to conform PPP programs to accommodate a slightly smaller customer base to ensure that PG&E's remaining customers receive the benefits of its PPP expenditures. However, at this time it is unknown whether in fact such expenditure reductions are possible, or whether other expenditures will offset such a reduction. Due to the uncertainty involved, we believe it is appropriate and reasonable to use PG&E's conservative estimates of lost PPP charge revenues for the purposes of forecasting lost NBC revenues.

There is a possibility that SSJID's severance proposal may idle some existing PG&E facilities requiring PG&E customers to cover the costs, however, the dollar impact depends on SSJID's precise plans which are unknown at this time.

SSJID states that it plans to acquire PG&E's existing electric distribution facilities to avoid duplicating and stranding PG&E facilities. As part of its acquisition plans, SSJID claims that some construction of facilities will be required to physically and operationally "separate" the facilities it intends to acquire from PG&E's remaining electric distribution system and to ensure that PG&E's remaining customers do not experience any degradation in service[4]. SSJID states that it also plans other facility construction in order to improve reliability and bring the system up to a reliability standard higher than the one PG&E currently meets, and is also working on contractual arrangements with PG&E and Modesto Irrigation District which it believes would provide efficiencies and minimize the need for some construction. SSJID asserts that the construction and installation of its proposed facilities will not result in the idling of any PG&E distribution facilities.

PG&E, on the other hand, asserts that the associated distribution and/or transmission facilities throughout SSJID's proposed service area would become idle or altered in the process of completing necessary severance work. The specifics, PG&E claims, depends upon SSJID's precise plans which are not known at this time. As an example, PG&E states if SSJID opts to take possession of PG&E's Manteca substation, it claims it would be necessary to relocate PG&E's transmission facilities (at SSJID's expense), as the site cannot accommodate a bifurcation of the facilities, and the transmission facilities are necessary for PG&E customers outside the proposed SSJID service area. However, if SSJID chooses to construct its own substation to serve the Manteca area, then there will be

[4] SSJID anticipates constructing a least one new substation, installing new transformers in some acquired substations, and installing new distribution lines and feeders in certain areas.

duplication and the facilities within PG&E's Manteca substation would become idle.

Our relevant criterion is whether any aspect of the district's proposal will *potentially* idle PG&E facilities requiring remaining PG&E customers to cover the costs of these idled facilities. Because the specifics of the proposal have not yet been determined, there is the *potential* that some PG&E facilities may be idled. Unfortunately, due to this uncertainty PG&E did not quantify any impact and thus we cannot rely upon any such estimate in our evaluation.

There would be costs resulting from lost T&D revenues that would affect remaining PG&E customers.

In addition to the lost NBCs revenues discussed above, PG&E states that its remaining ratepayers would be adversely affected by lost T&D revenues that PG&E would have collected from the customers in the proposed SSJID service area.[5] These lost revenues would be offset partly by the compensation ultimately provided by SSJID for the T&D assets. Using SSJID's asset valuation figure, PG&E estimates the total losses in T&D contribution to margin to be $197.3 million NPV.

SSJID believes there are errors and omissions in PG&E's analysis which leads to an overstatement of the T&D revenues that it will lose. For example, SSJID states that it is incorrect for PG&E to assume that PG&E will lose all transmission related revenues associated with the customers SSJID intends to serve because SSJID plans to take a majority of its transmission service from PG&E. Thus, SSJID argues the only difference will be that PG&E will receive such revenues from SSJID under PG&E's wholesale transmission service tariff rather than from retail customers through the transmission component of its retail rates. SSJID alleges PG&E fails to fully account for the transmission related revenues it will receive from SSJID.

[5] PG&E notes that it would avoid some T&D costs should the SSJID's proposal move forward, however, it expects the lost revenue to exceed the avoided costs, so that contribution to margin would decrease.

Although PG&E's disagrees, it ran a sensitivity case conservatively assuming 100 percent of the transmission service would be provided by PG&E. Due to the difference in rates between wholesale and retail customers, PG&E states that its overall 20-year NPV lost contribution to margin estimate would decrease by $36 million (from $197.3 million to $161.3 million).

The amount of transmission service that SSJID will be taking from PG&E is unknown at this time. In its proposal, SSJID states that it will take "a *significant portion* of its load" from PG&E owned transmission facilities, but it also states that it will take "*some* transmission service through the Western Area Power Administration Control Area." (Supplement, p.1, emphasis added). Quantifying the dollar impact associated with the terms "significant" and "some" is difficult. Clearly, it is not appropriate to assume that none of the transmission service would be supplied by PG&E (as PG&E has) nor is it appropriate to assume that SSJID will be taking all of its transmission service from PG&E (as SSJID asserts). When considering the possible impact on PG&E's remaining ratepayers, it is reasonable to assume that "a significant portion" means SSJID will take at least half of its of its transmission service from PG&E. Accordingly, we reduced PG&E's lost T&D contribution to margin estimate to $179.3 million NPV[6].

Although the amount of load departure resulting from SSJID's proposal may be within the range of forecasting uncertainty, it does not negate the cost impact analysis.

SSJID claims that the amount of load it would take is: a) small relative to the total load that PG&E has forecast will depart its system, b) is within the range of uncertainty in PG&E's forecasts, c) is not at risk to return (unlike direct access or community choice aggregation load), and d) is easier to predict than direct access load. SSJID also argues that future load uncertainty caused by its takeover plans can be easily managed by PG&E's portfolio, and that SSJID is not the only publicly owned utility planning to shift load from PG&E.

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[6] Since we were unable to run a 50 percent transmission service sensitivity case, we simply divided in half PG&E's 100 percent transmission service sensitivity case result to arrive at an $18 million reduction to PG&E's original NPV lost contribution to margin estimate. We recognize this approach lacks precision however, it should yield an estimate that is closer to the actual scenario.

PG&E responds that even if it were able to perfectly predict whether SSJID will actually implement its plan (and the exact date at which it would effectuate it take-over) and plan accordingly to minimize stranded procurement costs, that does not mean that PG&E's ratepayers would not be harmed by the loss of NBC revenues and T&D contribution to margin that would result.

There is no doubt uncertainty is inherent in future sales, loads and resource procurement forecasts; however, this type of uncertainty does not change our cost impact analysis. To provide electric service, PG&E makes large up-front investments in generation, transmission and distribution infrastructure, which going forward then become fixed costs. Rates are then set to cover variable operating costs plus an amount that goes toward amortizing the fixed costs over time. PG&E's model shows that customers in SSJID's proposed service area are making a positive contribution to margin, i.e. paying revenues in excess of marginal costs and thus helping to amortize fixed costs. If these customers are lost, then PG&E's remaining customers will have to contribute more (in the form of higher rates) in order for fixed costs to be amortized on schedule. We find that PG&E's analysis, as modified above, quantifies these effects on its remaining ratepayers.

To the extent there are avoided costs, PG&E credits them as a benefit to PG&E's remaining ratepayers. SSJID claims of additional net benefits to PG&E's remaining ratepayers lack supporting quantitative analysis.

SSJID states that a shift in load from PG&E to SSJID, as provided for it its proposal, will likely benefit PG&E's remaining customers. Specifically, SSJID asserts that 1) PG&E's remaining customers will benefit from any gain on sale related to SSJID's acquisition of PG&E's distribution facilities, 2) SSJID's proposal will help PG&E achieve needed load reductions at no cost to PG&E's ratepayers, 3) shifting load to SSJID will reduce PG&E's need to procure new resources, 4) reducing PG&E's need to procure new resources should help reduce the need to increase PG&E's authorized cost of capital to account for "debt equivalency", 5) shifting load to SSJID will reduce current cross-subsidies in PG&E's rate structure that favor residential and Central Valley loads at the expense of other PG&E customers, and 6) SSJID's proposal will reduce a current risk faced by PG&E that customers will depart PG&E service for Modesto Irrigation District, idling existing PG&E facilities.

We stated in our evaluation criteria that it is reasonable to consider "quantifiable costs and/or offsetting benefits that would affect remaining PG&E customers". In its response to SSJID's above assertions, PG&E readily acknowledges that some costs would be avoided if its facilities are condemned and it no longer is serving customers in the SSJID area. To that extent, PG&E has quantified these avoided costs over a 20-year study period and explicitly credits the estimates as a benefit to PG&E's remaining ratepayers. Although SSJID claims there are additional benefits beyond those captured by PG&E, it does not support such claims with any quantitative analysis.

SSJID's proposed service will likely raise rates for PG&E's remaining ratepayers but the magnitude of the estimated increase is small compared to current system average rates, and thus does not substantially impair PG&E's ability to provide adequate service at reasonable rates.

To estimate the total impact on remaining PG&E customers, PG&E added together its $34.8 million estimate of lost NBC revenues and its $197.3 million of lost T&D contribution to margin (offset by the net book value benefit), for a total impact of $232.1 million NPV over the 20-year study period. On an annualized basis, PG&E estimates its remaining ratepayers would be harmed by an estimated $22.9 million per year. This figure, divided by the 2007 estimated annual sales, would yield an estimated rate increase to its remaining ratepayers of $0.00037 per kWh.

As discussed above, we believe it is reasonable to assume that SSJID will take at least half of its transmission service from PG&E, and accordingly believe it is appropriate to reduce PG&E's lost T&D contribution to margin estimate from $197.3 million to $179.3 million, bringing the total impact down to $214.1 million NPV. On an annualized basis, PG&E's remaining ratepayers must cover $21.2 million per year. This figure, divided by PG&E's 2007 estimated annual sales, would yield an estimated rate increase of $0.00035 per kWh. This impact is approximately only ¼ of a percent of PG&E's current system average rates[7] and thus does not substantially impair PG&E's ability to provide adequate service at reasonable rates within the remainder of its service territory.

[7] PG&E's current system average rate for bundled service customers is 13.893 cents per kWh for rates effective March 1, 2006, as shown in PG&E's Advice Letter 2791-E.

Broader energy policy implications are beyond the scope of the analysis required in this Resolution; such implications should be considered in a generic CPUC proceeding and a statutory change should be made to expand the scope of future CPUC reviews.

PG&E claims that SSJID's project will result in the loss of CPUC jurisdiction and implies that this will undermine State public policies. SSJID responds that it believes PG&E's claim is incorrect and that it is irrelevant to the issues the CPUC must address under Government Code § 56131. SSJID states that it has been subject to public policy initiatives adopted by the Legislature and will continue to be subject to such initiatives, including state energy policies. SSJID further notes that it owns qualifying renewable resources which as a percentage of its load exceeds current CPUC renewable portfolio standard requirements.

In Resolution E-3952, dated November 18, 2005, we determined that the consideration of broader energy policy issues related to the formation or expansion of public power within a public utilities' service territory is beyond the scope of the CPUC's inquiry under Government Code § 56131 but could be the subject of a separate CPUC proceeding. In Resolution E-3959, dated December 15, 2005, we further elaborated that municipal utilities, municipal districts, and irrigation districts are not subject to the same requirements as utilities regulated by the CPUC regarding implementation of the state's energy policies, such as the greenhouse gas adder, the Renewables Portfolio Standard, the California Solar Initiative, and other activities related to climate change. We specifically noted that Government Code § 56131 is narrowly drawn and does not provide for us to conduct an analysis of whether public power expansion proposals are consistent with the state's energy policies. Nor does the statute provide for us to conduct an analysis of whether and to what extent the economic feasibility of providing utility service pursuant to an expansion proposal is driven by the ability of a non-regulated utility to escape the cost of implementing Energy Action Plan II policies. With the goal of adopting a general policy statement, we stated that we might consider such issues in PG&E's test year 2007 General Rate Case (GRC), A.05-12-002. On February 3, 2006, an Assigned Commissioner's Ruling and Scoping Memo for that proceeding was issued which found that these issues are better suited to be considered for all utilities generically rather than in PG&E's 2007 GRC. The initiation of a generic proceeding, such as an Order Instituting Rulemaking, is pending.

In addition, we have endorsed and are seeking a statutory change to expand Government Code § 56131 to require the CPUC to consider the cumulative impacts of public power expansion proposals. Additionally, we are seeking changes to consider the effect multiple proposals may have on the efficiency of the public utilities' programs to implement state energy policy goals and priorities on energy efficiency, renewable portfolio standards, the use of solar energy, and resource adequacy, among others.

COMMENTS

Per statutory requirement, a draft resolution was mailed to parties for comment at least 30 days prior to consideration by the CPUC.

PU Code § 311(g)(1) provides that a draft resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the CPUC. Accordingly, a draft resolution was mailed to parties for comment.

FINDINGS

1. SSJID submitted an application to the San Joaquin LAFCo proposing to provide retail electric service to approximately 40,000 existing PG&E customers.

2. Under Government Code § 56131, the CPUC must investigate and submit a report to the LAFCo within 90 days stating whether, in its opinion, SSJID's proposal within PG&E's service territory will substantially impair PG&E's ability to provide adequate service at reasonable rates within the remainder of its service area.

3. On January 18, 2006, the Energy Division received a letter, dated January 11, 2006, from the San Joaquin LAFCo requesting the opinion of the CPUC regarding SSJID's proposal.

4. In prior resolutions addressing LAFCo requests, the CPUC has considered the following criteria for evaluating the statutory provision: a) whether the customers of the proposed district will be able to bypass payment of

transition costs, which would require the remaining PG&E customers to cover these costs, b) whether any aspect of the district's proposal will potentially idle PG&E facilities requiring remaining PG&E customers to cover the costs of these idled facilities, c) whether there are any other quantifiable costs and/or offsetting benefits that would affect remaining PG&E customers, and d) whether the resulting cost impact, if any, would have a significant rate impact on remaining PG&E customers.

5. SSJID asserts that its acquisition of PG&E's distribution facilities and its provision of electric service will not adversely impact, and will likely benefit, PG&E's remaining electric customers.

6. PG&E asserts that SSJID's proposal will harm PG&E's remaining ratepayers by increasing their rates, and will substantially impair its ability to provide adequate service at reasonable rates within the remainder of its service territory.

7. Some customers in SSJID's proposed service area may be exempt from payment of transition costs and other NBCs which would require remaining PG&E customers to cover these costs.

8. There is a possibility that SSJID's severance proposal may idle some existing PG&E facilities requiring PG&E customers to cover the costs, however, the dollar impact depends on SSJID's precise plans which are not known at this time.

9. There would be costs resulting from lost T&D revenues that would affect remaining PG&E customers.

10. Although the amount of load departure resulting from SSJID's proposal may be within the range of forecasting uncertainty, it does not negate the cost impact analysis.

11. To the extent there are avoided costs, PG&E credits them as a benefit to PG&E's remaining ratepayers. SSJID claims of additional net benefits to PG&E's remaining ratepayers lack supporting quantitative analysis.

12. SSJID's proposed service will likely raise rates for PG&E's remaining ratepayers but the magnitude of the estimated increase is small relative to

PG&E's current system average rates, and thus does not substantially impair PG&E's ability to provide adequate service at reasonable rates.

13. Broader energy policy implications are beyond the scope of the analysis required in this Resolution; such implications should be considered in a generic CPUC proceeding and a statutory change should be made to expand the scope of future CPUC reviews under Government Code § 56131.

THEREFORE IT IS ORDERED THAT:

1. A certified copy of this Resolution shall be mailed to the Executive Officer of the San Joaquin Local Agency Formation Commission.

2. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on April 13, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

March 13, 2006 Commission Meeting Date: April 13, 2006

TO: PARTIES INTERESTED IN SSJID'S PROPOSAL TO PROVIDE RETAIL ELECTRIC SERVICE WITHIN PG&E'S SERVICE TERRITORY

Enclosed is draft Resolution E-3974 of the Energy Division. It addresses the San Joaquin LAFCO's request for the CPUC's opinion regarding South San Joaquin Irrigation District's proposal to provide retail electric service to approximately 40,000 existing Pacific Gas and Electric customers. The draft Resolution will be on the agenda at the April 13, 2006 Commission meeting. The Commission may then vote on this draft Resolution, or it may postpone a vote until later.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the draft Resolution.

An original and two copies of the comments, with a certificate of service, should be submitted to:

Jerry Royer
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Fax: 415-703-2200; JJR@CPUC.CA.GOV

A copy of the comments should be submitted by electronic mail to Laura Martin in the Energy Division at: LRA@CPUC.CA.GOV.

Any comments on the draft Resolution must be received by the Energy Division by March 31, 2006. Those submitting comments must serve a copy of their comments on 1) the entire service list attached to this letter, 2) all Commissioners, and 3) the Director of the Energy Division, on the same date that the comments are submitted to the Energy Division. Comments may be submitted electronically.

Comments shall be limited to five pages in length, and list the recommended changes to the draft Resolution. Comments shall focus on factual, legal or technical errors in the proposed draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Replies to comments on the draft Resolution may be submitted (i.e. received by the Energy Division) on April 7, 2006, and shall be limited to identifying misrepresentations of law or fact contained in the comments of other parties. Replies shall not exceed five pages in length and shall be served as set forth above for comments.

Late submitted comments or replies will not be considered.

Gurbux Kahlon
Program Manager
Energy Division

Enclosures:

Certificate of Service

Service List

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution E-3974 on all parties in these filings or their attorneys as shown on the attached list.

Dated March 13, 2006 at San Francisco, California.

____
Jerry Royer

NOTICE

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

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